

This record is a partial extract of the original cable. The full text of the original cable is not available.

UNCLAS WARSAW 000206

SIPDIS

SENSITIVE

STATE FOR EUR/NCE TARA ERATH AND MICHAEL SESSUMS  
USDOC FOR 4232/ITA/MAC/EUR/JBURGESS AND MWILSON  
TREASURY FOR OASIA MATTHEW GAERTNER AND ERIC MEYER  
FRANKFURT FOR TREASURY JIM WALLAR

E.O. 12958: N/A

TAGS: [ETRD](#) [ECON](#) [ENRG](#) [EPET](#) [PREL](#) [PL](#)

SUBJECT: Poland Pleasantly Surprised at Upturn in  
Commercial Relations with Russia

(U) This cable is sensitive, but unclassified, and NOT for  
Internet distribution.

[11.](#) (SBU) Summary: Polish and Russian firms had feared that Poland's EU accession would disrupt trade, in part because the EU required Poland to abrogate its bilateral trade agreement with Russia. Despite problems in some sectors, trade has expanded significantly. Polish exports were up more than 80% in the first ten months of 2004. Poland is lobbying Brussels for some changes in the EU-Russian agreement which set tariffs and quotas for the new members. Poland is particularly concerned to resolve issues related to meat and agricultural exports, and would like to lower tariffs on furniture. Poland supports Russia's entry into the WTO, but would like to see Russia adopt market based reforms first. Poland's relations with Russia on energy are more sensitive. The EU rejected the prospect of the two countries concluding a bilateral agreement on energy in October. Poland and Russia plan to meet on the margins of President Putin's trip to Poland at the end of January to discuss a range of energy issues. End summary.

[12.](#) (U) The Director for Bilateral Economic Relations with Russia at the Ministry of Economy, Elzbieta Bodio, provided an overview of Polish-Russian economic relations over the last year. Poland's entry into the EU forced several important changes in the economic relationship, including the EU requirement that Poland abrogate its bilateral economic treaty with Russia. Both Poland and Russia wanted to avoid a second shock to trade relations, given that companies are just now recovering from the drastic shock in the wake of the 1998 Russian financial collapse, which caused Polish exports to fall \$2.2 billion in 1997 to \$760 million. The big concern was that Poland's EU accession would force Poland to abrogate the bilateral economic treaty, which governed a number of sectors, including setting tariffs and import quotas in some areas. Russian companies were concerned they would lose market share. Russian exporters were particularly vocal in airing their fears, demanding in the fall of 2003 that the Russian government impose punitively high tariffs on Polish exports.

[13.](#) (U) Despite the fears that the worst would come to pass, 2004 turned out to be a year of progressively improving relations, at least outside of energy. It has turned out that Russian firms have benefited handsomely from the accession. Bodio said that tariffs on ten percent of Russian goods had declined, while they had increased on 5%, and stayed the same on energy (85% of the total). Through the first ten months of 2004, Polish exports were up 80%, despite problems in food exports. Some of the biggest increases have come in machines and medicines, and even in furniture, despite prohibitively high Russian tariffs.

[14.](#) (U) Poland and Russia had hoped to complete a new bilateral agreement which would comply with Poland's EU obligations regarding the internal market and competition before May 1. However, this proved impossible. The EU concluded an agreement with Russia on May 21, which set tariff rates and quota levels for Polish-Russian trade. In a number of areas, relatively short transition periods were set up, some of which will expire early in 2005. Meat exports and veterinary certificates are one of the most sensitive issues. Under the agreement, Russia authorized 19 Polish meat exporters to enter the Russian market; Russia left the choice of firms up to the GOP. Poland is trying to find a more permanent resolution. Poland is now lobbying Brussels on other areas, including pharmaceuticals, textiles, fertilizers, construction, cosmetics, furniture, meat, sugar and agricultural products. Poland is lobbying Brussels to reduce the current 6% tariff on Russian aluminum imports.

Economic Framework and Investment

-----

15. (SBU) Poland and Russia have subsequently signed a framework document which replaced some of the elements of the previous agreement, including setting up a joint commission. Poland would very much like to conclude an investment agreement with Russia. In 1992, the two governments agreed to a text, which was presented to the Duma in 1994, but never ratified. On November 1, Hausner

and Gref held initial talks on concluding a new investment agreement. The Ministry of Economy reports that it has prepared a draft agreement, but will have to wait for the outcome of consultations with the EC and Russia's reaction.

WTO

-----

16. (SBU) Poland supports the principle of Russia's entry into the WTO, which it believes will stabilize both Russia and Poland's overall trade relations. However, Poland also wants to see Russia fully implement market reforms to meet the requirements of WTO membership. Poland also has some bilateral concerns, particularly related to cotton and wool, which it has communicated to Brussels. Poland is aware that Russia is lobbying heavily to join the OECD early, even though it has not yet met the basic requirement of WTO membership.

Coal

-----

17. (SBU) Despite fears to the contrary, the Polish Government reports that its concerns about Russian dumping of coal have diminished considerably. Bodio said that the general increase in world prices has helped, reducing the incentive to dump coal at low prices on the Polish market. Russian exports are down to between one and 1.5 million tons a year, which reflects the previous bilateral quota levels. Ministry of Economy Coal Department Director Bogolubow said that most of Russia's exports are now soft coal, which is less sensitive, as more valuable coke exports have been sent elsewhere. Part of the explanation is that Russia has pursued other higher priced markets. Poland had been very concerned that unfairly low Russian coal imports would disrupt the government's politically sensitive coal sector restructuring program. However, since January 2004, there have been no significant problems.

Energy

-----

18. (SBU) Poland had proposed signing an energy agreement with Russia, setting out the quantities of oil and gas to be imported, and pledging cooperation on related areas. First the Russian Government gave the idea a cold reception in November, and then the EU told Poland that such an agreement would violate internal market provisions. Poland is concerned that there may be disruptions in the supply of Russian oil, connected to the Yukos nationalization, and that Russia may be pursuing alternatives to developing the Yamal II pipeline. Polish and Russian delegations will meet to discuss energy issues on the margins of President Putin's visit to Poland at the end of January for the Auschwitz liberation anniversary commemoration.

Ashe